Industrial Distribution

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Hotline:
Impact of new Congress on distributors unclear

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Manufacturers/Distributors

Issues and Answers

- Exclusivity
- Returned goods
- Loyalty
- Drop shipments
- Direct order entry
- Second lines
- Suppliers' services
- Discounts
- Selling direct
- Freight charges
- Profitability
- Factory reps
- Training

Also: "How to Sell Hose and Accessories"

ID Industrial Distribution

VOL. 76, NO. 2/76th yr. A CAHNERS PUBLISHING PUBLICATION FEBRUARY 1987

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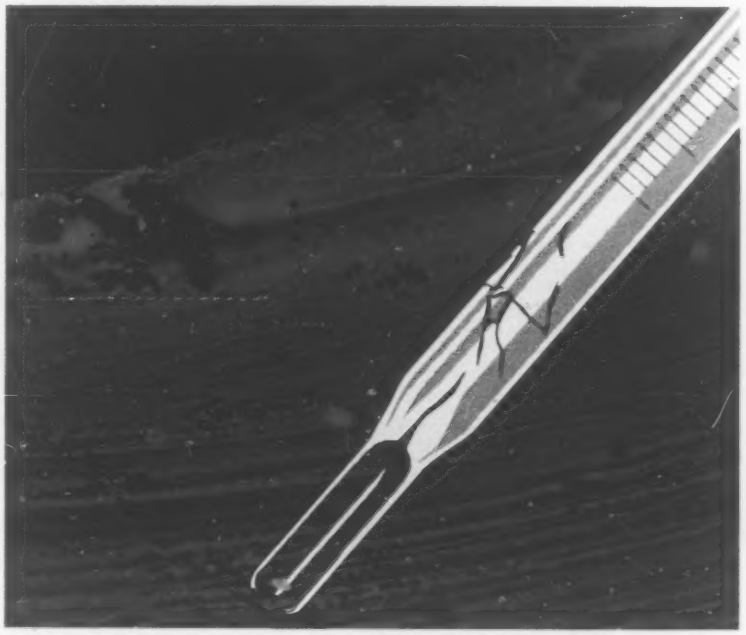

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INDUSTRY NEWS...

and CFO.

Accompanying the change in ownership will be management changes as well. Franz T. Stone will officially leave the board of directors after more than 50 years of service, as will John H. Goodwin, Jr., whose experience with the company also spans nearly five decades. "Under (Stone's) guidance," said the company, "Columbus McKinnon has grown from a small local company into a global manufacturer." Ladds stated that "In shifting the ownership of Columbus McKinnon...we have an additional stake in ensuring continued commitment and quality for our customers."

[*continued on page 26*]

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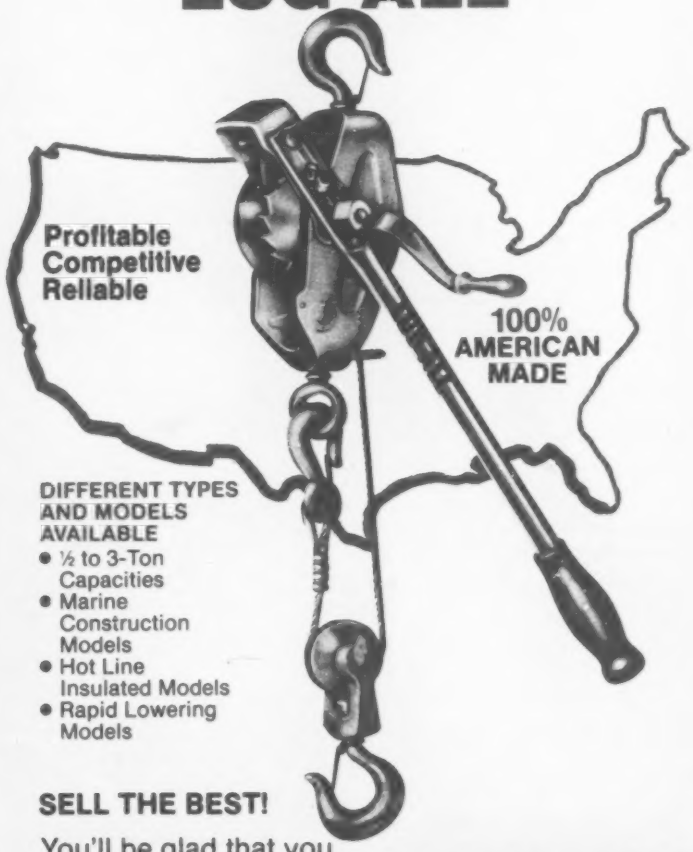

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Indicators...

The *NIDA/SIDA Industrial Distribution Index* for the month of November fell 7.4 points behind October to a level of 143.0. By comparison, in November of 1985 the national index stood at 147. In the four seperate geographic regions monitored by the index, each experienced a decline in performance on two fronts: month-to-month moving average as well as year-to-year comparisons. The most severe fall was recorded in the South, as it moved from 191.6 during October of last year, to 164.8 in November. This drop of 26.8 points is also 11.5 points behind the November 1985 index of 176.3...The *NIDA/SIDA Industrial Supply Inflation Index* (1977 = 100) remained unchanged between October and November at 165.3. One year earlier it stood at 162.9, having inched ahead 1.0% during the past 12 months...*SIDA'S Monthly Sales Trend Report* for November indicated significant slippage on a number of fronts, although some positive signs were noted in 12 month performance comparisons. For the 68 locations reporting nationally, 57 experienced falling sales between November and October, and 42 locations fell in November '86 to '85 comparisons. Performance throughout the area, which was down 16.60 points, was consistent with the four other areas: Area I (NC,VA,WV) down 16.85; Area II (FL,GA,SC,PR) down 11.36; Area III (AL,KY,MS,TN) down 19.12 and; Area IV (AR-,LA,OK,TX) down 17.57. Although only 3 of the 17 reporting locations in the oil-belt states of Area IV reported increased sales-,November '86 versus October '86, 10 of those same 17 also indicated increased sales in latest 12 month comparisons...The *ASMMA Monthly Index of New Orders* was also down for November, falling .5% to 119.7. In October of '86 the index stood at 120.3.□

BUSINESS REPORT

Sales gains still elusive

The business enthusiasm that greeted 1987 for some areas of distribution, most of it predicated on an expected upturn in manufacturing, has not yet materialized. A roundup of business conditions in various parts of the country reveals a very mixed picture with meaningful sales gains still eluding most distributors.

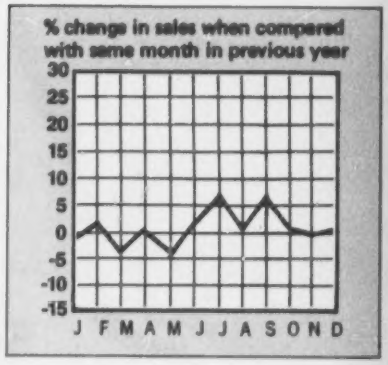
Pipe, valve and fittings distributors in the depressed Buffalo, NY area report some life returning to sales due, they believe, to the slightly improved demand for oil and petrochemical refining in the northeast. Parts and accessories in demand relate to the need for engines and turbine compressors for oil pipeline pumping. Some new high tech plants have also helped, but integrated circuit manufacturing, which would require fluid piping, is lacking, despite local incentives to bring some of this business in, and it is not likely to sprout with Japanese manufacturers continuing to gain a larger share of the American chip market.

In the midwest, cutbacks in automotive production continue to hurt metal fabricators and consequently many dependent businesses. Distributors here would like to see more industrial parks and new industries take up the slack of lost smokestack concerns, and in some areas this is occuring, but slowly and not in the numbers anticipated.

Distributors in Dallas-Fort Worth report new home construction off thus far this year, as the market has more than caught up with demand, but a building surge is underway in new stores and shopping centers reflecting population growth of the past few years.

In the south, paper mill activity and spotty construction activity have offset declines at automotive plants and related businesses such that distributors report they are "holding their own" compared to last year. No dramatic upsurge in business is anticipated.

December's figures show sales up a slight 1% nationally (see graph) over the same period last year. Receivables continue to improve, falling under the 40 day mark. **—Milt Ellenbogen**



RECEIVABLES*

	Dec. '86 Gen.	Dec. '86 Spec	vs. Dec. '85 Gen.	vs. Dec. '85 Spec.
New England	41	49	44	50
Middle Atlantic	46	41	48	42
South Atlantic	37	34	35	34
East No. Central	37	42	41	42
East So. Central	—	35	—	34
West No. Central	40	—	39	—
West So. Central	34	35	41	38
Mountain	39	36	39	40
Pacific	37	43	40	44
National	39	39	41	41

* Average days outstanding

SALES BY REGIONS (% change)	Dec.'86 vs. Nov.'86 Gen.	Spec.	Both	Dec.'86 vs. Dec.'85 Gen.	Spec.	Both	12 months '86 vs. 12 months '85 Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	+2	−3	−1	+2	+11	+4	−9	+2	−4
Connecticut	—	−6	—	—	+23	—	—	+5	—
Massachusetts	−1	—	—	+1	—	—	−1	—	—
MIDDLE ATLANTIC: NY, NJ, PA	+1	+13	+9	−7	−3	−4	−6	0	−2
New York Metropolitan Area	+5	+12	+10	−8	−6	−7	−6	+2	+1
Upstate New York	0	−9	−4	−1	−11	−6	−3	−3	−3
Pennsylvania	−6	+26	+14	−7	+1	−2	−4	−1	−2
SOUTH ATLANTIC: DE, DC, MD, FL, GA, NC, SC, VA, WV	+15	+12	+13	+6	+4	+5	0	−1	−1
Georgia-Florida	+8	+16	+16	0	+2	+2	−1	−4	−3
EAST NORTH-CENTRAL: OH, IN, IL, MI, WI	−6	+11	+6	+6	−10	−6	−8	+1	−1
Indiana	—	—	—	—	—	—	—	—	—
Wisconsin	+18	+17	+17	+18	+1	+5	+4	−3	+1
Chicago	—	—	—	—	—	—	—	—	—
Michigan	—	−3	—	—	−27	—	—	−2	—
Ohio	−16	+21	+3	−13	−16	−15	−13	+2	−6
EAST SOUTH CENTRAL: AL, MS, KY, TN	—	+15	—	—	+11	—	—	+2	—
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	+24	—	—	−18	—	—	−7	—	—
WEST SOUTH CENTRAL: AK, LA, OK, TX	−22	+10	0	−10	−15	−14	+6	−8	−5
Texas	—	+19	—	—	−5	—	—	−8	—
MOUNTAIN: NM, AZ, CO, UT, NV, WY, MT, ID	+21	−15	+2	+27	−17	+3	+8	−3	+2
PACIFIC: CA, OR, WA	+17	+16	+17	+16	+22	+19	0	+1	+1
L.A.-San Diego	—	—	—	—	—	—	—	—	—
Oregon-Washington	+25	+19	+22	+13	+18	+16	+4	+3	+3
U.S. TOTALS	+13	+11	+12	+4	−2	+1	−3	0	−2

Manufacturers/Distributors

Issues and Answers

How are the forces of change in the late 1980's affecting relations between the typical supplier and his distributors? Results of ***ID's Attitude Survey*** *presented in detail on the following pages reveal how each side now views problems that have never been fully resolved and, in many cases, still strain distributor-supplier relations. The survey also reveals areas of agreement between suppliers and distributors, and it offers guidelines for building closer, longer-lasting and more productive relationships.*

Highlights

Manufacturers and distributors see the benefits to a manufacturer of selling through distribution. Half of both groups feel secure with most relationships but say the relationships are less profitable than five years ago.

Three-quarters of the suppliers feel they are more successful using more than one distributor in an area but an equal number of distributors feel suppliers reap more rewards if they use a single distributor in the area.

Two-thirds of the distributors polled feel second lines are necessary for some products. More than half of the suppliers of commodity-type products agree with an equal number of distributors that second lines are often necessary.

Distributors feel suppliers' sales training programs are inadequate but many distributors don't participate. Both agree about what costs each should bear.

There is dissatisfaction with supplier personnel's ability to train distributors' salespeople. Most distributors prefer full-time factory reps over manufacturers' agents.

Among the other distributor responses were these. Distributors agree that they should have prior approval before returning the goods and that they should pay the freight . . . there should be a restocking fee . . . a 2% early payment discount is fair (half the manufacturers offer 2% discounts) . . . drop shipments should be made without a penalty . . . freight should be prepaid on minimum orders . . . half intend to use suppliers' direct order entry systems . . . an industry-wide product numbering code would be helpful.

About this survey . . .

This report is based on two concurrent surveys: one to manufacturers (suppliers), one to distributors. Names were selected from the distributor and associate (manufacturer) memberships of national associations. Most questions were sent to both distributors and manufacturers to allow readers to compare attitudes about certain possible problems via easy-to-read tables. Hopefully, observing the "other side's" attitudes will allow distributors and manufacturers to move closer than ever to a real marketing partnership.

The report is in three parts: (1) a comparison of suppliers' and distributors' attitudes about the same potential problem areas; (2) attitudes of distributors alone about problem areas; (3) attitudes of suppliers alone about certain problem areas.

Note that in the TOTAL columns, the percentages under "Manufacturers," are not an average of the total number of responses from the following three types of manufacturers because the number of responses from manufacturers of Commodities, Non-Capital Goods and Capital Equipment varied for each group. The column shows percentages based on *total* number of manufacturers who responded to the questions.

For the purposes of the survey, the following definitions of types of manufacturers were used:

- o COMMODITIES: commodities, supplies, small tools, components, etc.
- o NON-CAPITAL GOODS: priced under $1000
- o CAPITAL EQUIPMENT: priced $1000 or more

How to use these tables

These tables show distributors what their suppliers deem most important to them, and vice versa. If a response to a potential problem by either side is seen as a sign of dissension, then either side can take constructive steps to meet and solve the problem or, at least, to justify its action.

In the table "Advantages of Selling Through Distributors," most suppliers (72%) and distributors (66%) nearly agree that "wider market coverage and sales effort" is an advantage. Obviously, this does not present a problem.

More than three times as many distributors (28%) as suppliers (9%) see "distributor handles service/installation" as an advantage in selling through the industrial distributor. The supplier may not realize that if his distributor has a repair, retrofit or engineering service, the distributor may be able to sell more of his product, often in quantity.

Obviously, there is a serious problem when, for example, twice as many of the distributors (19%) as manufacturers(9%) feel that manufacturers bypassing the distributor to sell to the customer direct, is still among "the areas that inhibit manufacturer-distributor relationships."

Look at the tables for the widest gaps between suppliers' and distributors' responses. Recognize the differences as barriers to good relations and as problems you either have or will encounter as you add lines or anticipate changes in supplier policies. Recognize them also as a basis for constructive dialog with suppliers. In the tables where responses are from suppliers alone or distributors alone, note the degree to which the respondents view problem areas. If, for example, two-thirds of your peers (67%) feel that fewer than half of suppliers' reps are competent to train your salespeople, you have a strong case for complaining to your suppliers. And if manufacturers (48%) indicate that their distributors "offer market information" to their suppliers, then distributors who do not, ought to be aware that offering local market information to suppliers may be to their advantage.□

MANUFACTURERS/DISTRIBUTORS

Most important to distributors and mfgrs are distributors' intimacy with the local market, more sales motivation and local stocks.

A growing trend? A quarter of the mfgrs say there are no advantages in selling direct.

No industry-wide problem here. Most mfgrs and distributors are secure with each other.

Exclusivity rates high among distributors and mfgrs as potential problem areas. Selling direct is more of

	% of responses							
	Total		Mfgrs of			Distributors: No. of Suppliers		
	Manufacturers	Distributors	Commodities	Non-capital goods	Capital Equip.	Up to 25	25–100	100–plus
ADVANTAGES OF SELLING THROUGH DISTRIBUTORS								
Wider market coverage and sales effort	72	66	72	69	68	65	66	69
Local, more frequent contact	54	60	54	44	64	64	59	53
Local inventory/distributor warehouses	57	68	60	57	62	59	66	88
Distributor assumes credit risk	18	36	19	13	23	31	36	43
Distributor handles billing/invoicing	14	28	16	7	17	29	21	40
Mfgrs can ship in quantity	14	6	17	3	6	8	3	7
Distributor handles service installations	9	28	8	18	17	38	25	19
Reduced sales expenses	24	29	25	15	19	33	28	22
Other	3	1	3	3	—	—	2	2
ADVANTAGES OF SELLING DIRECT								
Special/tech sales distributor can't handle	38	48	38	39	55	45	51	50
Higher profit margin can be more competitive	31	26	33	34	26	22	30	26
Keep in better touch with market	22	13	23	21	21	13	13	10
Build brand loyalty with customers	20	13	21	19	23	15	11	12
None. No advantages. Not practical for our line.	25	46	26	19	21	51	43	43
HOW THEY FEEL ABOUT LOYALTY								
Very secure	13	9	13	10	11	12	6	9
Secure with most	46	54	46	51	38	55	55	52
Secure with some	32	25	31	33	38	27	23	24
Secure with very few	9	12	10	7	13	6	16	16
BARRIERS TO GOOD RELATIONS								
Cancellation practices	3	3	3	2	4	6	1	2
Returned goods policies	4	10	5	3	6	4	9	21
Quality of mfgrs' reps	6	11	6	8	4	8	14	12
Reps poor product knowledge	3	5	1	7	9	4	3	9
Sales/product training	3	2	2	7	4	3	1	2
Inventory quotas	4	6	3	7	4	8	6	3

Distributors prefer early payment discounts. Generally both sides agree on 2%.

Both sides agree on two sources for high-turnover items, one source for higher-ticket items.

Nearly all mfgrs offer distributors sales training but only one-fifth of the distributors feel programs are adequate.

	% of responses							
	Total		Mfgrs of			Distributors: No. of Suppliers		
	Manufacturers	Distributors	Commodities	Non-capital goods	Capital Equip.	Up to 25	25–100	100–plus
MFGRS OFFERING EARLY PAYMENT DISCOUNTS AND WHAT DISTRIBUTORS DEEM FAIR								
1%	16	9	17	13	6	16	8	2
1½%	1	3	2	—	—	2	4	2
2%	51	68	54	50	38	57	71	79
2½%	—	1	—	—	—	1	1	—
3%	3	5	3	5	9	4	2	10
Over 3%	1	7	1	—	2	4	11	5
On delivery	—	2	—	—	—	2	3	2
Ten days	44	43	44	47	38	49	41	36
Twenty days	1	12	2	—	—	13	15	3
Thirty days	14	26	14	13	15	25	23	35
NO. OF SOURCES OF SUPPLY CONSIDERED ADEQUATE OF MFGRS. AND DISTRIBUTORS								
FOR FAST TURNOVER COMMODITIES . . .								
One	28	11	30	29	22	16	11	4
Two	56	52	57	47	58	55	51	46
Three	16	37	13	24	19	29	39	50
FOR HIGHER TICKET ITEMS . . .								
One	60	46	58	68	78	58	39	37
Two	36	42	36	32	22	33	51	43
Three	5	12	5	—	—	10	11	20
MFGRS OFFERING FORMAL SALES TRAINING PROGRAMS . . . AVG. NO. OF DISTRIBUTORS WHO CONSIDER THEM ADEQUATE								
At-factory programs	48		46	55	70			
At-distributor programs	81		80	98	94			
Other-site programs	27		27	31	43			
Net total	87	22 avg.	85	100	100	23 avg.	23 avg.	20 avg.

a problem for distributors as expected. Mfgrs are more defensive about drains on profit and services they offer distributors.

Mfgrs sense more rapport with distributors; distributors see little change.

Both agree relationship is less profitable than 5 years ago.

Distributors prefer to be exclusive; mfgrs opt for multiple distribution.

Both agree that prior approval is fair and the distributor should pay the freight. Distributors deem 10% restocking fee fair; half as many see 10% or less as fair.

Most on both sides agree on no charge to distributors on drop shipments.

Freight charges	3	5	3	—	—	7	4	2
Suggested list prices	3	2	3	5	2	3	1	3
Price change notice	3	2	3	2	2	1	1	3
Promotional/sales support	2	2	3	2	2	2	3	2
Discounts	17	9	20	10	9	8	9	10
Exclusivity	15	18	15	16	13	18	20	16
Delivery	14	14	15	8	17	20	9	12
New products	2	2	1	2	6	2	2	2
Selling direct	9	19	8	10	15	10	23	26
CHANGE IN RELATIONSHIP: FRIENDLINESS								
Friendlier	51	25	51	54	53	30	20	26
Same	29	40	29	30	26	41	42	35
Less friendly	21	35	20	16	21	29	38	39
CHANGE IN RELATIONSHIP: PROFITABILITY								
More profitable	26	20	26	30	35	21	23	14
Same	27	28	26	22	33	23	27	35
Less profitable	47	52	48	48	33	55	50	51
EXCLUSIVE DISTRIBUTORSHIPS								
Use just one qualified distributor in an area	23	72	21	33	39	77	74	60
Use more than one qualified distributor in an area	77	28	79	67	61	23	26	40
MFGRS' RETURNED GOODS POLICIES AND WHAT DISTRIBUTORS DEEM FAIR								
5% restocking fee	2	11	2	—	4	12	11	5
10% restocking fee	23	31	26	15	15	28	36	26
15% restocking fee	33	11	34	36	32	14	9	9
20% restocking fee	12	4	11	10	11	3	3	7
No charge if resalable	14	34	14	11	15	32	26	52
Must have approval	68	62	72	58	68	61	59	71
Distributor pays freight	57	55	59	50	62	52	59	53
Limited to % of sales	16	28	17	21	23	30	30	22
Other	14	6	16	15	17	6	5	7
No answer	8	19	4	16	11	18	23	16
MFGRS' DROP SHIPMENT POLICIES AND WHAT DISTRIBUTORS DEEM FAIR								
No penalty	61	64	59	60	72	63	68	60
With a surcharge	6	5	6	7	4	7	1	9
Negotiable/depends	11	25	13	7	4	20	27	29
With minimum orders	9	19	10	7	4	17	19	21
Distributor pays freight	13	15	12	13	19	18	16	7
Other	12	3	13	13	11	1	5	3
No Answer	6	3	5	7	4	6	1	—

PROPORTION OF KEY DISTRIBUTORS USING AT-FACTORY PROGRAMS								
Less than 10%	40		42	41	41			
About 10%–25%	35		34	32	22			
26%–50%	12		12	8	16			
Over half	14		12	19	22			
PROPORTION OF KEY DISTRIBUTORS USING AT-DISTRIBUTOR PROGRAMS								
Less than 10%	12		13	8	5			
About 10%–25%	28		27	28	29			
26%–50%	26		24	28	26			
Over half	34		36	36	40			
WHAT DISTRIBUTORS SHOULD PAY FOR AT AT-FACTORY TRAINING PROGRAMS								
Distributor staffs' meals	14	33	15	21	14	35	30	35
Distributor staffs' lodging	27	36	27	24	24	35	38	36
Staffs' transportation	87	62	86	95	92	58	66	64
None/nothing	10	19	11	3	5	17	18	21
WHAT DISTRIBUTORS SHOULD PAY FOR AT AT-DISTRIBUTOR TRAINING PROGRAMS								
Distributor staffs' meals	45	58	44	47	53	61	57	53
Distributor staffs' lodging	55	51	52	60	77	54	50	45
Staffs' transportation	57	47	55	63	70	48	46	45
None/nothing	38	21	41	43	23	16	22	26
MFGRS' FREIGHT COST POLICIES AND WHAT DISTRIBUTORS DEEM FAIR								
F.O.B. our plant or warehouse	36	27	32	42	51	33	23	24
Freight prepaid on minimum orders	46	43	51	44	38	30	51	52
Dollar allowance on minimum orders	4	5	5	3	2	5	5	5
Prepaid or allowance on certain products	10	26	10	8	11	27	26	24
Other	15	2	16	13	9	3	3	—
No Answer	3	5	2	5	—	7	6	—
ANTICIPATING USE OF DIRECT ORDER ENTRY BETWEEN MFGR AND DISTRIBUTOR								
Between supplier & distributor	42	48	43	48	45	50	47	47
Do not anticipate direct order entry	29	23	29	20	23	24	23	21
Not sure/don't know	29	29	28	33	32	26	30	32
Between distributor and end-users		31				30	30	37
MFGRS WHO DEVELOP MARKET POTENTIAL DATA FOR DISTRIBUTORS								
.. for all distributors	19		19	19	23	—	—	—
.. for key distributors	33		34	42	30	—	—	—
.. none/no answer	47		46	36	45	—	—	—

(Continued on page 50)

Nearly 9 out of 10 mfgrs say no more than half of their key distributors use at-factory programs; most mfgrs say no more than half use the programs at the distributor's site.

Distributors will pay for meals and lodging but feel mfgrs should pay for transportation.

Most mfgrs and distributors agree distributors should pay some costs at at-distributor programs.

Two out of five distributors accept a policy of prepaid freight on minimum orders. A third of the mfgrs ship F.O.B.

Two-fifths of the mfgrs, nearly half of the distributors anticipate use of D.O.E.

Half of the mfgrs get local market data from their distributors.

MANUFACTURERS/DISTRIBUTORS

Half the mfgrs offer market data; only a quarter of the distributors feel it's not important.

Most distributors want technical "high-tech" training. Nearly as many in both groups feel a need for improved communications. Distributors need new high-tech products.

	% of responses							
	Total		Mfgrs of			Distributors: No. of Suppliers		
	Manufacturers	Distributors	Commodities	Non-capital goods	Capital Equip.	Up to 25	25–100	100–plus
IMPORTANCE OF MFGRS' MARKET DATA TO DISTRIBUTORS								
.. very important		26				25	24	31
.. somewhat important		49				42	54	54
.. not very important		24				32	22	16
HOW DISTRIBUTORS WANT MFGRS TO HELP THEM EXPAND INTO HI-TECH MARKETS . . . HOW MFGRS PLAN TO HELP								
Improve communications	30	29	31	29	37	32	26	28
Introduce high-tech products	27	29	27	29	21	32	30	24
Technical training	—	48	—	—	—	52	45	48
Advertising support in high-tech markets	15	23	16	14	16	25	22	22
Sales training	24	27	23	29	35	20	33	28
Provide market data	—	31	—	—	—	34	25	40
Provide engineering help	26	31	28	17	21	34	32	24
Other	7		8	2	7			
Not applicable	34		34	37	28			

Most mfgrs see the product code as probable; half of the distributors agree it would be helpful. Reasons: easier ordering and buying; compatability with the computer.

	% of responses							
	Total		Mfgrs of			Distributors: No. of Suppliers		
	Manufacturers	Distributors	Commodities	Non-capital goods	Capital Equip.	Up to 25	25–100	100–plus
MFGRS: IS A STANDARD PRODUCT NUMBERING CODE PROBABLE IN THE NEAR FUTURE? DISTRIBUTORS: WOULD AN INDUSTRY-WIDE CODE FOR THE PRODUCTS YOU SELL BE HELPFUL?								
Probable	63	—	66	46	54	—	—	—
Not probable	37	—	34	55	46	—	—	—
Helpful	—	53	—	—	—	42	59	64
Not helpful		47	—	—	—	59	41	36
WHY/WHY NOT?								
Ordering buying easier	10	29	11	8	8	18	40	22
Fits with computer or data processing	15	26	15	15	—	13	32	35
Distributor customer can compare use different sources	6	3	8	8	—	—	2	9
Too many variations	17	9	19	19	23	13	6	9
Too costly	2	3	1	—	8	—	4	4
No industry standards	9	9	8	12	15	21	4	—
Have own system	16	9	15	15	23	8	8	13

ROOTS OF THE PROBLEM

This and past surveys show that relations between suppliers and distributors depend on attitudes about: manufacturers selling direct . . . exclusivity in a marketplace . . . early payment discounts . . . security (loyalty) . . . receivables . . . required profitability . . . minimum annual sales of a line . . . sustained minimum inventory . . . second competitive lines . . . profit margins . . . freight allowances . . . returned goods . . . quality of manufacturer-supplied sales training . . . delivery . . . technical and promotional support . . . product quality . . . data provided on local markets . . . BUY AMERICAN . . . responsibility for potential liability action . . . customer services . . .

(Continued on page 52)

MANUFACTURERS

	All responses (avg.)	Mfgr's of		
		Commodities	Non-capital goods	Capital equip.
MFGRS ADDING DISTRIBUTORS IN GIVEN MARKETS AND THE REASONS:				
To handle new products	16	16	10	22
New emphasis on distribution	10	11	8	9
Because distributors use multiple sources	23	25	13	16
To improve market share	31	33	25	36
To serve other industries	29	30	25	36
MFGRS REDUCING THE NUMBER OF DISTRIBUTORS IN GIVEN MARKET AREAS AND THE REASONS				
Due to the products' complexity	4	5	3	2
To strengthen current distributors	17	17	18	29
Result of a master distribution plan	3	3	3	2
NO CHANGE IN NO. OF DISTRIBUTORS	16	15	18	16
REQUIREMENTS FOR HANDLING GIVEN MFGRS' LINES				
Minimum inventory	48	45	66	72
Minimum annual sales	42	38	60	53
Sales training	33	31	42	47
Minimum sales coverage	30	28	37	36
Provide service and installation	11	11	8	19
Other	6	7	7	4
MFGRS WHO HELP DISTRIBUTORS PLAN SYSTEMS SELLING CONTRACTS WHICH MAY EXTEND OVER THE MFGRS' OWN LINES				
Will help	25	21	42	43
Does not help	67	72	50	47
MARKET INFORMATION FED TO MFGRS FROM DISTRIBUTORS				
Distributors provide local data	48	50	51	46
Distributors do not offer the data	52	51	49	54
DISTRIBUTOR PARTICIPATION IN THEIR SUPPLIERS' DIRECT ORDER ENTRY SYSTEMS				
Open to all with compatible equipment	29	31	14	33
Must stock our products	37	36	41	43
Must purchase the complete product line	14	11	14	10
Exclusive handling of our line	7	7	7	—
Other	21	21	31	19
HOW MFGRS FEEL ABOUT DIRECT ORDER ENTRY WITH DISTRIBUTORS VIA COMPUTER				
Will decrease the number of sources a distributor uses	60	61	69	57
No effect on the number of sources	33	31	31	33

DISTRIBUTORS

	Distributors (% of responses)			
	All respondents (avg.)	with up to 25 suppliers	25–100 suppliers	100-plus suppliers
ARE SECOND LINES NECESSARY WHEN PRIMARY LINE SALES SELL WELL AND ARE PROFITABLE?				
Generally second lines are necessary	41	44	39	40
Generally not necessary	29	34	27	22
Depends on the product	30	21	34	38
HOW MANY OF YOUR SUPPLIERS REPS ARE COMPETENT TO TRAIN YOUR SALESPEOPLE ABOUT PRODUCT BENEFITS, APPLICATIONS AND/OR SALES OPPORTUNITIES?				
Under half are competent to train salespeople	67	65	66	72
Half or more are competent to train salespeople	33	35	34	28
WHO WOULD YOU RATHER DEAL WITH?				
Suppliers' factory salespeople (reps)	53	54	54	50
Independent manufacturers' agents	12	14	9	14
HOW OFTEN ARE YOU CALLED ON BY SUPPLIER SALESPEOPLE?				
Once a week	7	9	4	11
Once a month	44	37	45	53
Once every 3 months	35	27	42	36
Once every 6 months	8	16	5	—
Once a year	5	10	4	—
Never	1	2	1	—

MANUFACTURERS

Mfgrs add distributors to improve market share and the industrial base.

Mfgrs reduce the number of distributors to strengthen others' sales and profit potential.

Mfgrs mandate minimum inventories and annual sales of their lines. Service/installation are low priority.

Mfgrs generally don't help plan systems contracts beyond their own lines.

Half of the distributors offer suppliers market data.

Mfgrs offer distributors direct order entry (D.O.E.) if they carry their line, even as non-exclusive.

D.O.E. is an incentive for distributors to carry a mfgr's line.

DISTRIBUTORS

Most distributors see the necessity of second lines, although the product may make a difference. Second lines are preferred by most distributors even when the first line is profitable.

An old story? Distributors still feel that fewer than half of the suppliers' own reps are competent to teach product benefits and sales opportunities.

Full-time suppliers' representatives are preferred over independent manufacturers' agents due to the reps' pipeline to the source and product knowledge.

Monthly and quarterly calls on distributors are most common. Once-a-week calls may be considered overkill and are less common as are semiannual and annual calls on distributors.

Compiled by Business Marketing Research, Bronxville, NY

Showcase review: Hose and accessories

While experts see only modest *real* growth in hose and accessories over the near term, they detect isolated signs of new life in long-dormant industries.

It is an indication of how much the economic times have changed when the gurus of the industrial hose industry can discuss an annual growth rate ranging from 1-2% in positive terms.

But according to Dominic Olivieri, vice president-management information with Washington-based Rubber Manufacturers Assn. (RMA), U.S. consumption of industrial hose between 1986 and 1987 will increase by only about 1.27% from $1.16 billion to approximately $1.17 billion.

Doug Harper
Senior Editor

The forecast prepared by the RMA's Hose and Belting Statistical Committee postulates an annual growth rate that will remain relatively listless through the 1980's, rising to an estimated $1.285 billion by the year 1991, an increase of 2.7% over the previous year (see chart).

At the same time, the RMA committee producing the forecast pointed out the difficulty of making prognostications concerning the market outlook. The Committee acknowledged "economic uncertainty" for the industry in view of many unresolved economic variables including the impact of tax reform and "the industry's dependence upon the performance of the heavy industries such as automotive, construction, mining and steel."

NAHAD looks ahead

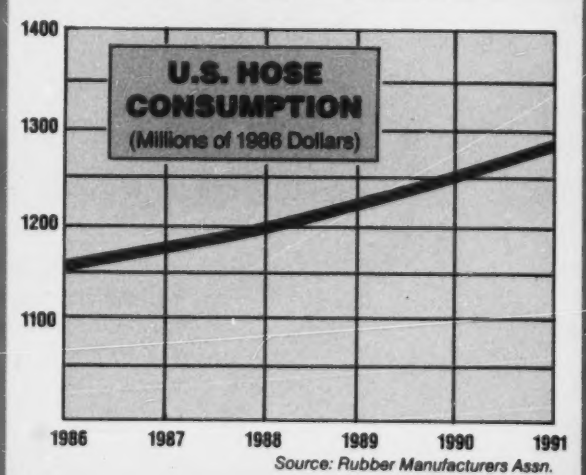
The president of the National Assn. of Hose & Accessory Distributors is Edward B. Fabacher, Jr. who is also president of Fabacher Inc. located in Harvey, LA. According to Fabacher, "We don't see anything in the marketplace before 1989. It's going to be very soft and there are more people looking to diversify by going into specialty items

[*continued on page 72*]

DOMESTIC MANUFACTURERS' SALES OF HYDRAULIC HOSE AND HOSE ASSEMBLIES
($Millions)

Year	Domestic Manufacturers' Sales	Annual % Change
1972	$ 299.2	—
1973	376.2	25.7%
1974	527.8	40.3
1975	566.9	7.4
1976	514.3	−9.3
1977	678.7	32.0
1978	832.0	22.6
1979	1,056.2	26.9
1980	1,134.5	7.4
1981	1,018.2	−10.3
1982	933.0	−8.4
1983	995.3	6.7
1984	1,200.7	20.6
1985	1,309.9	9.1
1994*	2,623.2	8.1

*Projected — SOURCE: U.S. Dept. of Commerce



Source: Rubber Manufacturers Assn.

Hose and accessories review . . .

which, in many cases, is hoses."

Geographically, Fabacher feels that the State of Florida in particular and the Southeast in general appear to have bright futures and "They expect steady and continued growth in construction primarily." New England, he says, continues to show a steady increase in business.

The Midwest, says Fabacher, racked by labor disputes and bankruptcies, is regrouping and he sees the Chicago area again starting to "boom" in the near future.

The mining areas of the West are operating at the same rate that they have in last few years and Fabacher doesn't predict any significant changes in the near future. On the other hand, he sees growth in the aerospace industry following a stormy 12 months in the wake of the space shuttle *Challenger* disaster. But with recent Space Station contracts awarded to Martin-Marietta and Boeing, he expects to see the pace of business pick up.

Oil, still in the doldrums, does not indicate any new vitality in the next few years, according to Fabacher. "In the Texas, Oklahoma, Louisiana marketplace, we think oil bottomed out in the Summer of 1986 and the trend is slowly turning up, but at a much slower speed than it fell.

"Since the first of the year here in Louisiana, we've had people buying from us who haven't bought anything in two years. And where some customers would bring back hoses for repair, they now are buying new hoses plus a couple of spares which, for us, is like getting an extra present at Christmas. But I don't think the oil fields are going to recover to a steady pace for at least another year-and-a-half. Oil prices, which are right now hovering around $18-$19 per barrel, will have to get up to $22 a barrel and remain that way for six months before sales of hose and accessories will really start to take off."

In terms of pricing of product over the next 12-18 months, Fabacher doesn't anticipate any major changes barring unforseen inflationary pressures. "We gear ourselves to inflation in the marketplace and when inflation goes up, the prices go up in hose and fittings," he comments, adding that several domestic manufacturers are anticipating "a very slight" price increase in 1987 although it is not expected to be "across the board." "We have had practically no price increases in the last year and we may have a very modest one this year which really falls in line with inflation," Fabacher says.

NAHAD's president in 1986, James R. Elliott, president of Associated Hose Products located in Portland, OR, agrees with Fabacher saying that he expects to see business over the next year "about on a par with the last 12 months," while commenting that his firm will be putting more emphasis on what he describes as *high technology* hoses.

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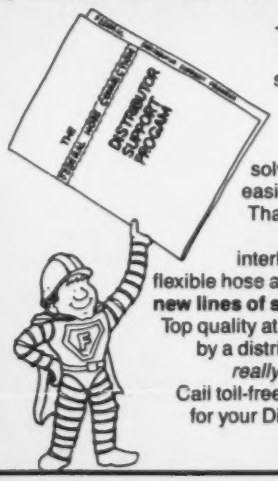

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The hydraulic hose and assembly market

According to the business research firm, Business Trend Analysts, after several years of decline in early 1982 and 1983, the hydraulic hose and hose assembly market began to feel the effects of recovery starting in 1983. In that year, sales of hydraulic hose and assemblies increased 6.6% over the previous year.

The primary impetus for this new strength was new vigor in motor vehicle production where hydraulic hose is used in everything from power steering and brakes to automatic transmissions. As a result, sales leaped ahead by 20.6% in 1984, the best year enjoyed by the industry since 1979.

Since that time, the growth of hydraulic hoses and fittings, hit hard by the decline of agriculture, steel, oil and the increase in vehicle imports, has fallen to more subdued levels, estimated at less than 9% in 1985, under 6% in 1986, and expected to hover around 2-3% in the next five years, paralleling the projected growth of the industrial hose market.

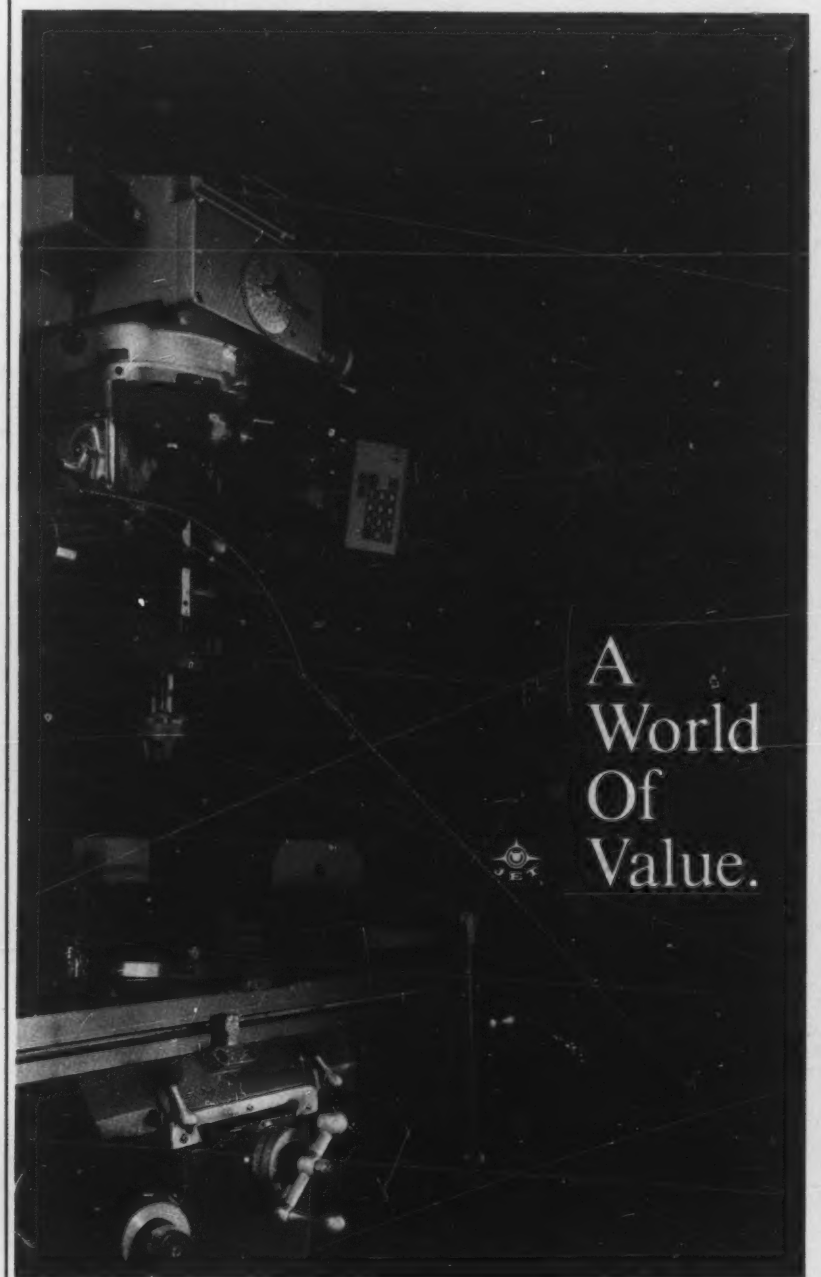
upon the sales of hoses that are unique for particular applications as opposed to standard lines that are carried by the great majority of distributors. We're becoming increasingly involved in such applications as specialty chemical handling, hoses that are uniquely flexible compared to standard hose and extreme high and low temperature hose."

Elliott sees distributors methodically moving away from *commodity* hoses. "We carry commodity hose but we basically sell those items because we have to. When you say to a purchasing agent, 'I have these hoses and here is the price,' he usually turns around and replies 'Yes and so do the other 17 hose distributors in town'."

'We've had people buying from us who haven't bought in several years.'
Fabacher

Some specific areas of strength

Larry Lehnerz, hose product/market development manager, for Gates Rubber Co. in Denver notes that "In 1987 we see the market as being essentially flat with minimal-to-no growth." Lehnerz attributes the tight hose market situation to the relatively slow pace of American industry in general and the diminished oil market in particular. "Whether it's mining, heavy manufacturing or whatever," says Lehnerz,



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Hose and accessories review . . .

"the overall market is soft right now."

He points out, however, that Gates currently perceives some specific areas of market strength for industrial hose which include food processing and distribution, industrial chemicals, and in some other specialized *niche* markets which he declined to identify.

In terms of pricing, Lehnerz says Gates made a modest increase in its prices this month.

Geographically, he notes that Gate's strongest sales in 1987 were in the Northeast, "although it might be a fluke," he added. In 1986, he reports that the South and the East showed more vigor than other areas of the nation.

"Moderate" growth in '87

While asking not to be identified, a spokesman for one of the major U.S. hose producers said that he sees the market growing about 3% with "our company going up considerably more than that."

He added that there are still areas of business—coal, steel, oil—that are depressed but that he sees moderate growth in the rest of the economy. While the construction industry is currently viewed as the backbone of the hose industry, he points out that although oil exploration has fallen to low levels, oil transport, tanker hose, and dispensing hose are still doing well. "Agriculture is an area that we don't see as being too bad although it's certainly diminished a lot from the OEM point of view. But the aftermarket still seems to be pretty good."

'The importers are standing with their backs to the wall.' Reichel

Speaking of hose prices, he notes that "They are all moving. We've seen some of our competitors raise prices already and we're raising our prices soon but it's been a long time since they have moved at all. Prices haven't changed since 1985 when there were some modest increases but nothing at all in 1986. So I'm sure the importers will go along with price increases, considering the weakened state of the dollar. As a matter of fact, they're going to be happy about it."

An importer's view

Manfred F. Reichel is president of Semperit Industrial Products, Inc., an Austrian hose manufacturer which claims it is one of the two largest importers of hose into the U.S.

Reichel says that he expects the hose business "to show a very modest growth compared to last year. Maybe in the area of zero-to-three percent." Reichel says that he expects prices in the

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short term to remain unchanged from last year although noting that since Semperit's product is manufactured in Austria, the recent decline of the U.S. dollar against other currencies "will eventually force us to adjust our pricing."

He also points out, however, that since imports comprise a relatively small share—10%—of total U.S. consumption, "the price is determined by the major domestic manufacturers. As a result of the slow growth in the hose business and the excess capacities of U.S. manufacturers, "they will probably continue to fight on pricing regardless of whether the importers can match the pricing or not."

Reichel notes bemusedly that when the dollar was strong, the major U.S. manufacturers attributed weak hose prices to importers who were keeping the prices low. Now, says Reichel, "The importers are standing with their backs to the wall more or less since the dollar has dropped almost 40% against major European currencies and the Japanese yen and the prices still don't go up."

There are two reasons for this phenomenon, says Reichel: 1. The domestic manufacturers want business and fight each other on pricing and 2. None of the importers wants to give up a substantial market share.

The feeling among importers, says Reichel, "Is that if you have been selling hose in the U.S., you have to continue even if your margins get substantially lower, since the U.S. is still one of the largest hose consumers in the world.

"In the hose business," maintains Reichel, "distributors and end users will only buy an imported product if it is equal to or lower-priced than a domestic hose."

Reichel points out that the value of the Austrian *shilling* is pegged to the West German *mark* at a fixed rate of about seven-to-one. To illustrate the strong decline in the value of the dollar, he says the mark has fallen from a peak in 1985 of $3.30 down to about $1.75-$1.80 currently.

Part of the drop, Reichel concedes, is compensated for by raw material purchases which are frequently valued in U.S. dollars causing the weak dollar to work to the company's advantage. Nevertheless, he emphasizes, there is still a substantial drop in the profitability of hose products imported into the U.S. The exceptions are the currencies of those countries—Taiwan, Korea, Hong Kong, Malaysia—which are linked to the dollar. "In the future, these countries will take greater advantage of supplying the U.S. because their monetary rate of exchange will work to their benefit."

While disagreeing on the timing and magnitude of the next boom in the perpetual boom and bust cycle that has characterized the hose and accessory market over the last decade, there is a consensus among most industry observers that at least the worst, for now, is behind them. □

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